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C O N F I D E N T I A L PANAMA 001213

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E.O. 12958: DECL: 06/20/2016
TAGS: [ETRD](#) [ENRG](#) [PREL](#) [PM](#)
SUBJECT: PANAMA & VENEZUELA TO SIGN ENERGY AGREEMENT

Classified By: Classified by CDA Luis A. Arreaga for reasons 1.5 (b) and (d)

¶1. (C) Summary: Minister of Trade and Industry Alejandro Ferrer told Econ Chief June 19 that the GOP expects to sign a framework agreement and two related agreements on energy with Venezuela during the June 22 visit of Hugo Chavez. He stressed that the deals would be limited to general agreements "to discuss" future cooperation on energy and that he does not expect them to materialize into any concrete or meaningful outcomes. Ferrer said he rejected a GOV ploy to get Panama into the "Bolivarian Alternative for the Americas" (ALBA). The GOP will sign FTAs with Singapore and Chile in the coming week to counter Chavez's likely anti-free trade rhetoric. End Summary.

GOP and GOV Agree "To Discuss" Future Energy Cooperation

¶2. (C) Ferrer said that he has been under growing pressure from Venezuelan Energy Minister Rafael Ramirez to have an energy-related deliverable for Chavez's visit. At GOV insistence, he met on June 17 with Petroleos de Venezuela (PDVSA) representatives, who pressed Ferrer on a deal to buy refined product through Petro Caribe under "special" financing terms. When PDVSA confirmed that a condition of buying through Petro Caribe would be Panama's joining the ALBA, Ferrer says he refused.

¶3. (C) However, under pressure from President Torrijos and certain other GOP ministers to do anything to get "cheap Venezuelan oil," Ferrer said he went along reluctantly with the planned agreement limited to "future discussions." He said that other GOP ministers did not understand the unfavorable economics of the GOV's offer and, therefore, mistakenly believe that Panama would see lower energy prices from the deal. The only other reason they'd want the deal, he said, is for the political boost the GOP might score with Chavez sympathizers in Panama. When Econ Chief suggested that Ferrer encourage his fellow ministers to consult with PDVSA's customers elsewhere in the region, Ferrer chuckled knowingly, as he recognized PDVSA's poor history in delivering on its commitments.

¶4. (C) In addition to a framework agreement, the GOP and GOV

will sign two subordinate agreements: one to discuss Venezuelan crude supplies for a refining in Panama and one to discuss energy-related "logistics." Ferrer acknowledged that the latter could theoretically open the door to reconsideration of reversing pipeline flow from Panama's Caribbean side to Puerto Armuelles on the Pacific. He was quick to add, however, that he has never seen any follow-through from the GOV in the past. He expects the GOV will simply take the short-lived PR gains from this week's visit and then forget about any serious follow-up.

¶15. (C) Ferrer was uncertain as to how Panamanians will react to the energy deal. He said the reactions will likely range from unrealistic hopes that Venezuela's oil will lower Panama's energy prices to criticism for either signing such a vague, meaningless deal or for agreeing to anything with Chavez. Either way, he said, he expects to be "crucified."

FTA Signings to Counter "Risky" Chavez Visit and Rhetoric

¶16. (C) To help counter Chavez's likely anti-free trade rhetoric, Ferrer said the GOP will sign with great fanfare today (June 20) its FTA with Singapore. Likewise, the GOP will announce Ferrer's June 23 departure for Santiago to sign the Panama-Chile FTA. Ferrer claimed he had "no idea" why the GOP invited Chavez to visit Panama and acknowledged that it was a "risky" proposition given Chavez's penchant for unhelpful surprises. Noting that the GOP sees the main opposition to the proposed Panama Canal expansion coming from Chavez-inspired groups in Panama, Ferrer suggested that this was an effort to curry favor with Chavez, thereby blunting the Canal expansion opponents.

Comment: GOP anxious to Dampen USG Concerns

¶17. (C) We take Ferrer's comments that he is unaware of the GOP's reasons for inviting Chavez with a grain of salt. This visit has been in the making for quite some time. We take Ferrer's outreach as part of the GOP's "gringo handling" strategy for the Chavez visit. The GOP is clearly anxious to dampen USG concern that Chavez's June 22 visit presages a Panamanian move into the Bolivarian orbit or a repudiation of the GOP's commitment to free trade. However, we draw little comfort from the GOP's lack of a more compelling explanation for their admittedly risky invitation to Chavez during the potentially volatile run-up to a referendum on the proposed Canal expansion. End comment.

ARREAGA